

Fermilab Flexible Spending Accounts Brochure

If you have dependent care expenses or medical bills your insurance doesn't cover, you'll want to take advantage of an innovative and valuable feature of your benefits program—reimbursement accounts. Reimbursement accounts offer money-saving tax advantages for these expenses.

What is a Reimbursement Account?

Think of it as your own personal bank account in which you can set aside a predetermined dollar amount to cover allowable unreimbursed health and dependent care expenses. You contribute to the accounts through payroll deduction on a pre-tax basis...that is, before federal, state and social security taxes are applied. You reimburse yourself from your account for specific bills not covered by other benefit plans.

Two Reimbursement Account Options

Through the benefits program, Fermilab offers you the opportunity to participate in two types of reimbursement accounts:

- Health Care Account
- Dependent Care Account

You can enroll in either one or both of these accounts, depending on your own personal needs.

How the Accounts Work

Each year during the open enrollment period, you indicate on the Enrollment Application how much you want to contribute to each account. The maximum you

can contribute is \$5,000 to the dependent care account and \$3,000 to the health care account. You will have money deducted from each paycheck and set aside in an account designated to reimburse you. Then, you pay your dependent care provider (babysitter or daycare facility, for example) as you normally would and submit that expense for reimbursement from your account. For health-related expenses, you submit a claim form to the insurance company and obtain an Explanation of Benefits (EOB), indicating that services were not paid by the plan, and submit that EOB to the plan's claims processor, CIGNA, for reimbursement from your account. The sooner you submit your expenses, the sooner your claim will be processed. Let's look at each account to determine if it can help you with your out-of-pocket expenses.

HEALTH CARE REIMBURSEMENT ACCOUNT

The health care account is designed to help you pay for expenses not covered by your

medical or dental insurance plans. Generally, any health related cost that the IRS considers eligible for a tax deduction may be reimbursed through your health care account. A partial list is included in this enrollment package. Here are some common examples of eligible expenses:

- Deductibles and coinsurance amounts.
- Health care not covered by insurance plans, such as hearing aids and eyeglasses.

How Much Can You Contribute?

You can contribute up to \$3,000 a year to your account. In deciding how much to contribute, consider the health related expenses you routinely incur which are not covered by medical or dental insurance. Use last year's expenses as an example and complete the following chart:

Medical and dental deductible
\$ _____

Medical and dental copayments
\$ _____

Uncovered expenses (e.g. hearing aids and eyeglasses)
\$ _____

Total unreimbursed expenses
\$ _____

You will probably want to contribute the total of these unreimbursed expenses, or a generous portion, to your health care reimbursement account if you expect similar expenses this year.

What is the Advantage of Using Before-Tax Dollars?

Let's assume you are the sole wage earner in your family and will earn \$35,000 next year. You expect to spend \$1,900 for your child's orthodontic work. The following illustrates how a Health Care Reimbursement Account actually increases your spendable income.

	With A Health Care Account	Without a Health Care Account
Base Salary	\$35,000	\$35,000
Health Care Account	1,900	0
Gross Income	33,100	35,000
Less Federal Income Tax	1,655	1,940
Less Social Security Tax	2,532	2,678
Less Illinois Income Tax	813	870
After-Tax Income	28,100	29,512
Less health care expenses Yet to be paid		2,000
Spendable Income	\$28,100	27,612

This example assumes a married filer with 3 dependents.

DEPENDENT CARE REIMBURSEMENT ACCOUNT

Care for your dependent(s) may enable you and your spouse (if applicable) to work or attend school full-time. You may establish a dependent care reimbursement account to help you pay for these dependent care costs. Expenses eligible for reimbursement include costs for the care of:

- a dependent child under age 13 who qualifies as your tax dependent;
- anyone you claim as a tax dependent because of physical or mental inability to care for himself or herself. Examples are an elderly parent or a disabled spouse.

Expenses may be reimbursed for services provided:

- Inside your home, as long as the care is not provided by someone you or your spouse claim as a dependent or by a relative under age 19;
- Outside your home, as long as your dependent spends at least eight hours a day in your home;
- In a dependent care center or a child care center. If the center cares for more than 6 children, it must comply with applicable state and local regulations. By a housekeeper whose services include, in part, providing care for a qualifying individual.

The person or organization who cares for your dependent(s) must declare the money received from you on their federal income tax in order for you to use the reimbursement account. You'll need to provide the tax identification number (TIN) of the caregiver when you submit your claims.

How Much Can You Contribute?

Under present law, the maximum annual contribution allowable is \$5,000 if you are single or married and file a joint income tax return. If you are married and file separately, your maximum allowable annual contribution is \$2,500.

Additionally, the maximum amount a married couple can set aside cannot exceed the lower of your earned income or your spouse's earned income (for instance, if your spouse earns \$3,500 during the year, that is the most you can contribute to your reimbursement account.) If your spouse is a full-time student at least five months a year, the IRS will consider him or her to be gainfully employed. For earned income purposes, the IRS will assume that he or she has earned at least \$200 per month if you have one dependent receiving care, or \$400 per month if you have two or more dependents receiving care.

What is the Advantage of Using Before-Tax Dollars?

A dependent care reimbursement account works in much the same manner as the health care reimbursement account. However, you should be aware that federal law provides a tax credit for those who incur dependent care expenses. When

comparing the advantages of a dependent care reimbursement account to a tax credit, you should estimate the amount of tax savings with each system to find out which is more favorable for your personal circumstances.

Dependent Care Account or Tax Credit?

The dependent care reimbursement account may not be appropriate for everyone. You may find out it is more advantageous for you to take a dependent care tax credit on your federal income tax return than participate in a dependent care account. The decision depends on your overall child care expenses and your household income.

Federal law provides a tax credit – called the “Credit for Child and Dependent Care Expenses” – for those who incur dependent care expenses in order to be gainfully employed. The tax credit directly reduces the amount of income tax you owe. The amount of tax credits is equal to the percentage of dependent care expenses you incur and pay during the year, up to a limit of \$2,400 if you have one qualifying individual or \$4,800 if you have two or more qualifying individuals. The amount eligible for a federal tax credit for dependent care expenses will be directly offset by the amount the employee contributes to a dependent care reimbursement account. The percentage that applies to you depends on your adjusted gross income (or the combined adjusted gross income of you

and your spouse). As a general rule, if your income tax bracket is greater than the percent allowed from the tax credit, the dependent care reimbursement account will allow you to make the most of your earned income. So, for example, if you are in the 25% tax bracket and your allowable dependent care tax credit is 22%, the dependent care reimbursement account may benefit you. If the percent allowed for your tax credit is greater, the credit is likely to be a better choice.

Use It or Lose It Feature

It is critical that you estimate your expenses carefully before directing money into your reimbursement account. The IRS requires that all unused account balance will be forfeited after the end of the year. Forfeited funds will be used to offset the administrative costs of this plan, but we would rather see you use your accounts fully.

Funds cannot be carried over from one year to the next and if you participate in both accounts, you cannot use any extra money in your health care account to pay for dependent care expenses and vice versa.

How to Enroll in the Accounts

To enroll in one or both accounts, simply complete the reimbursement account enrollment application included with this brochure and return it to the Benefits Office.

Make sure that you have listed the amount of income you would like withheld from your annual earnings for each account.

The amount you designate will remain in effect for the entire plan year unless you have a change in family status such as:

- Addition or loss of dependents
- Addition or loss of spouse's employment
- Change in work status
- Change in marital status
- Commencement or return from an unpaid leave of absence
- Significant change in the health coverage of an employee or spouse
- Change of residence or work site of the employee or spouse
- Change in employment status
- Change in unmarried dependent's status

If you have a change in status and wish to change your elections, you must notify the Benefits Office within 31 days of the event.

Withdrawals From Your Account

To withdraw money from your account, you must complete a reimbursement request form (available from the Benefits Office) and send it to CIGNA with the appropriate receipts and documentation of expenses. Reimbursement checks will be sent directly to you, not your provider of services.

Here are some other IRS guidelines you need to know about making withdrawals:

- Expenses must be incurred in the same plan year as your contributions are made.
- You may request reimbursement for up to ninety days after the close of the plan year for expenses incurred during the plan year. (After that time, your balance will be forfeited.)
- If you terminate employment during the year, you may request reimbursement for expenses incurred prior to your termination date. You will have until the end of the next fiscal quarter after you terminate employment to collect this money.
- If you do not have enough money in your account to reimburse yourself for your entire dependent care expense, your entire account balance will be paid to you, and as more money is credited to your account, checks will automatically be issued to you until that claim has been paid (you do not need to keep resubmitting the same claim). If your expenses are health-related, you will be reimbursed up to your annual contribution amount, less any prior payments.
- Checks are issued weekly and are paid in amounts of \$50 or more. If your request is for less than \$50, CIGNA will accumulate the balance until you submit at least \$50 in claims, then send your check. The last payment of the year will be for the actual

amount of your request, providing you have money left in your account.

Social Security Implications

Before-tax contributions may affect your Social Security benefits when you retire. When you deposit money into the reimbursement account or pay your insurance premiums on a before-tax basis, Social Security taxes are not withheld from your paycheck. As a result, if your taxable income is less than the maximum wages taxed by Social Security (\$90,000 in 2005), you could reduce your future Social Security benefit. For most people, the possible decrease in Social Security benefit is more than offset by the federal income and Social Security tax savings.

Questions?

If you have further questions after reading this brochure, please contact the Benefits Office for assistance.

Visit Our Website

For more information, the summary plan description can be found on our web pages at http://www-lib.fnal.gov/archive/policy_web/policy_web/spds/spd.pdf

This brochure was prepared by the Fermilab's Benefits Office, M.S. 126 P.O. Box 500, Batavia, IL 60510

REIMBURSABLE HEALTH CARE EXPENSES

Below is a partial list of services and supplies that you can pay for using your health care reimbursement account. If you want a complete list of reimbursable items, contact the local IRS office and request Publication 502. A listing is also provided by CIGNA on the Web at:

<http://www.cigna.com/health/consumer/medical/fsa.html>.

- All medical and dental expenses that are covered expenses but are not actually reimbursed under Fermilab's medical and dental plan contracts
- All deductibles and copayments charged to an individual under any medical or dental care insurance contract, or medical or dental managed care plan
- All expenses charged by a licensed physician or dentist for treatment of a medical case provided in the doctor's or dentist's office, in a hospital, in your home or at the place of an accident
- Fees charged directly by medically recognized specialists for medical care, including these types of providers:
 - Anesthesiologist
 - Cardiologist
 - Chiropracist
 - Christian Science Practitioner
 - Dermatologist
 - Gynecologist
 - Naturopath
 - Neurologist
 - Obstetrician
 - Ophthalmologist
 - Optometrist
 - Osteopath
 - Pediatrician
 - Podiatrist
 - Psychiatrist
 - State licensed psychologist
 - Surgeon
- Purchase of a guide dog for a blind or deaf individual
- Eye refractions or hearing exams
- Purchase of eyeglasses, hearing aids, and contact lenses, including insurance to cover the loss of these items
- Purchase or rental of prosthetic devices or the cost of surgical implants
- Legally obtained sterilizations or abortions
- Acupuncture treatments for pain control (but not for behavior modification)
- Purchase or rental of wheelchairs
- Prescribed drugs (unless prescribed for cosmetic reasons)
- Ambulance services
- Oxygen or related equipment
- Blood and blood plasma
- Physical therapy or hydrotherapy
- Fees for lab tests and x-rays
- Orthopedic appliances prescribed by a doctor for personal use but not for business use
- Tuition fees you pay to a specially licensed school for your child who has a severe learning disability caused by a physical or mental handicap or nervous disorder, if recommended by a doctor
- Cosmetic surgery to improve a deformity resulting from a congenital abnormality, disease, or injury
- Solutions required for contact lens maintenance: saline solution, cleaners, rewetting drops etc.
- Fee to participate in a smoking cessation program, excluding over the counter drugs
- Radial keratotomy (RK) or other corrective eye surgery such as lasik surgery
- Medical expenses related to the treatment of infertility.
- Over the counter medicines and drugs.